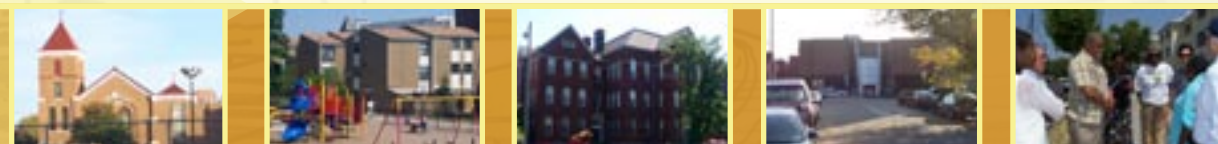
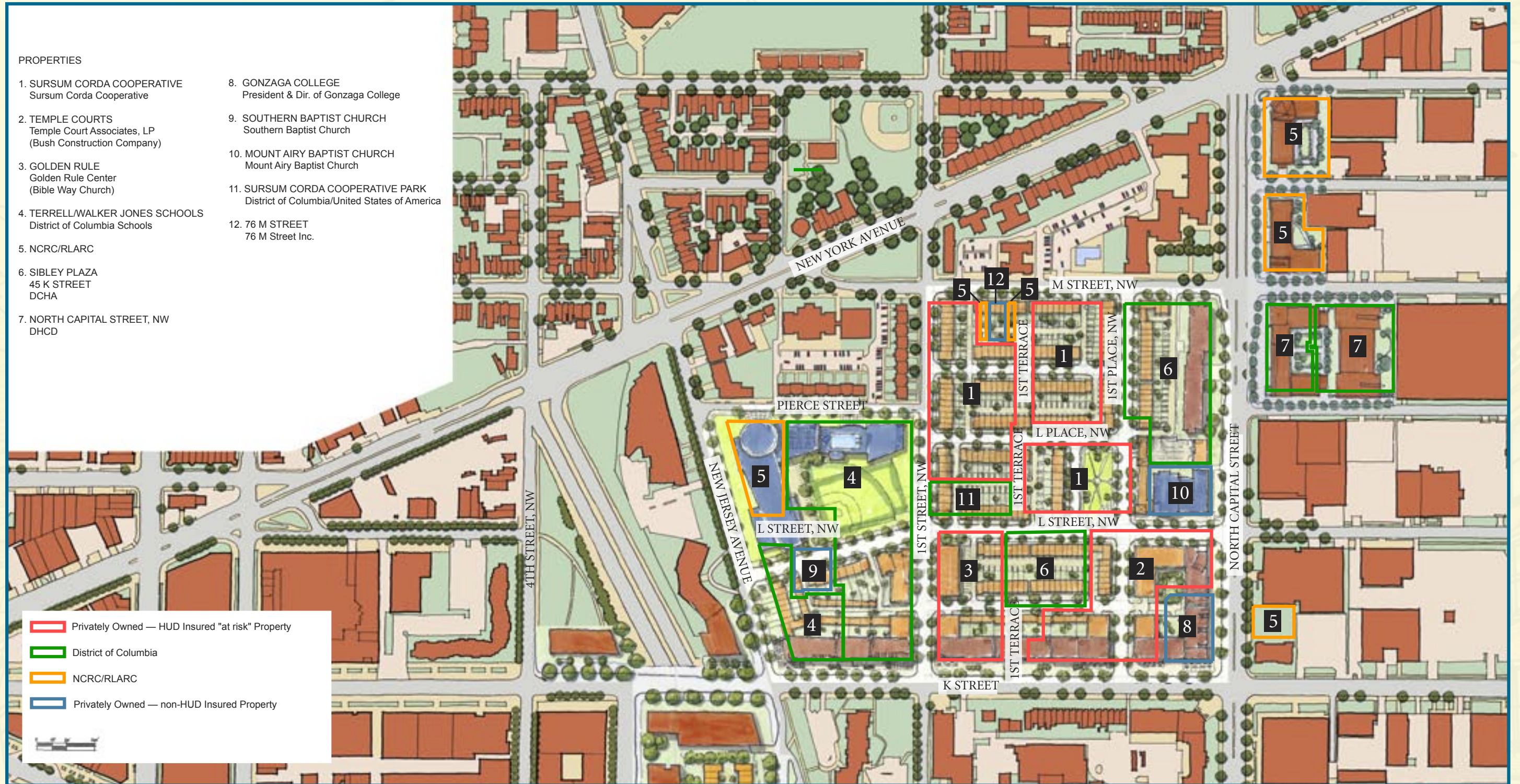


Development and Finance Strategy



PROPERTIES

- | | |
|--|--|
| 1. SURSUM CORDA COOPERATIVE
Sursum Corda Cooperative | 8. GONZAGA COLLEGE
President & Dir. of Gonzaga College |
| 2. TEMPLE COURTS
Temple Court Associates, LP
(Bush Construction Company) | 9. SOUTHERN BAPTIST CHURCH
Southern Baptist Church |
| 3. GOLDEN RULE
Golden Rule Center
(Bible Way Church) | 10. MOUNT AIRY BAPTIST CHURCH
Mount Airy Baptist Church |
| 4. TERRELL/WALKER JONES SCHOOLS
District of Columbia Schools | 11. SURSUM CORDA COOPERATIVE PARK
District of Columbia/United States of America |
| 5. NCRC/RLARC | 12. 76 M STREET
76 M Street Inc. |
| 6. SIBLEY PLAZA
45 K STREET
DCHA | |
| 7. NORTH CAPITAL STREET, NW
DHCD | |



Development and Finance Strategy

- 1. Development Program
- 2. Site Control
- 3. Phasing & Relocation
- 4. Schedule
- 5. Sources & Uses

The Development and Finance Strategy section of the NW1 Redevelopment Plan describes in general terms the proposed development program, site control, phasing and relocation, schedule and estimated sources and uses of this redevelopment effort. The Redevelopment Plan is comprised of three components:

- Master Plan (a physical redevelopment plan)
- Human Capital Plan
- Development and Finance Strategy

The Redevelopment Plan is the result of the Guiding Principles executed on January 31, 2005 between the District and Northwest One Council. The Development and Finance Strategy that has emerged out of months of weekly and intensive community meetings constitutes an outline of the action steps required to bring the Redevelopment Plan to life as a living, breathing New Community. The Master Plan contemplates almost 1,700 new units of housing (over 1,000 new units of affordable housing). The total estimated cost of the NW1 Redevelopment Plan when fully realized will be approximately \$550 million and will be constructed in phases over a five to seven year period.

The NW1 community meetings have been managed by a Steering Committee. The Steering Committee is comprised of community residents and stakeholders and District officials. The Co-Chairs of the Steering Committee from the District's side are Robert C. Bobb, City Administrator, and Stanley L. Jackson, Deputy Mayor for Planning and Economic Development.

1. Development Program

The purpose of the Master Plan is to provide a vision for physical redevelopment. The purpose of the Human Capital Plan is to provide a roadmap for the rebuilding the human and social capital of the neighborhood. The Master Plan has two development elements, in addition to other considerations such as transportation planning recommendations: housing and neighborhood amenities.

• Housing

The housing units called for include mixed-income, mixed tenure and mixed product type.

Mixed-Income – the proposed redevelopment contemplates approximately 1,698 new units – of which one third are to be deeply subsidized units, one third are to be affordable moderate income / workforce housing units, and one third are to be market rate units. All phases of the development must include this approximate mix of incomes from the beginning to successfully integrate and create a truly mixed-income neighborhood.

Mixed Tenure – the proposed redevelopment includes rental units and for sale units.

Mixed Product Type – the existing and new residents that will live in the new community will demand and be offered a variety of product types, including townhouses, mid rise apartment buildings and high density buildings including both condos and apartments. A key Guiding Principle agreed to by NW1 and the District is that replacement units for existing subsidized families will be of a type and size appropriate to their household size and compositions. The mix of product types – all of high quality architectural and design choices – is critical in meeting the diverse needs of families, seniors and new residents to the area. The market analysis located in the Appendix describes in detail the types of amenities and likely price points to be supportable by market demand in the area.

• Neighborhood Amenities

It takes more than new housing units to make a healthy mixed-income community and a neighborhood of choice for residents of diverse income patterns; sufficient amenities are also required to attract all residents. The amenities contemplated in the redevelopment vision include:

- a new 100,000 sf K-8 school in place of the outdated Walker Jones Elementary School and Terrell Junior High;
- a new state-of-the-art recreation center linking the housing units of the new neighborhood with the new school, ball fields and open green space;
- a new library, likely to be located on K Street;
- new community “pocket” parks and tot lots
- a new community health center, likely to be located on K Street; and,
- approximately 95,000 sf of neighborhood serving retail and other commercial uses.

2. Site Control

The land needed to build the development program described above includes approximately 28 acres. Approximately 60% of this land area is publicly owned and 40% is privately owned.

The land required includes parcels within the area bounded by K Street to the south, North Capitol Street to the east, M Street to the north, and New Jersey Avenue to the west – and also includes three publicly owned parcels along North Capitol Street. The publicly owned land is owned by District of Columbia, the DC Housing Authority (DCHA), the National Capital Revitalization Corporation (NCRC or RLARC) and District of Columbia Public Schools (DCPS).

Three privately owned HUD-insured properties within the Redevelopment Plan area – Sursum Corda Cooperative, Temple Court and Golden Rule Center – comprise approximately 10.13 acres, or 90% of the six privately owned parcels of land necessary for the redevelopment.

The critical development issue involved with the implementation of the NW1 Redevelopment Plan is site control.

To begin, the District must either (a) assemble the necessary properties and/or (b) negotiate development agreements with the owners of existing properties that control both what is developed on the parcels in the future as well as a complex set of contractual arrangements including but not limited to income mixing and human capital supportive services programming executed in a coordinated fashion across the entire redevelopment area.

Because of the scope, interconnectedness and complexity of the execution of the Redevelopment Plan, it is highly recommended that the District – including its public partners – assemble all the land in order to be able to effectively plan, control and implement phasing, demolition, relocation, site preparation, the construction of public infrastructure improvements and new neighborhood amenities needed to achieve the outcome of a New Community. Moreover, assembling all the land will likely be far less costly to the District than the compensation required to incentivize individual developers and property owners to achieve the same outcomes.

The map on page 38 depicts the Master Plan that emerged from the community design workshop in July overlaid on top of existing property lines, illustrating the importance of site control.

The District must be careful to plan for both mixed-incomes in all properties and a neighborhood of reasonable density for the families and residents who live there.

A critical risk is ensuring that incomes can be mixed across the existing properties in a fashion that enables a neighborhood of reasonable and not excessive density for families living there today. Based on the one-third deeply subsidized, one-third affordable income/workforce and one-third market rate housing vision, there are two choices:

1. dramatically increase density on each parcel; or,
2. mix incomes across properties.

If the District cannot mix incomes across properties by integrating the Section 8 units among all phases of the new, larger, 28 acre community, there is a serious risk that the density would have to be increased to an excessive level to achieve income mixing.

Generally in the United States, past experience with urban renewal has sometimes led to the unfortunate location of low income families in high density settings with indefensible space, lack of recreation areas for children and teenagers, and corridors where residents disappear behind anonymous apartment doors instead of parks where residents of all backgrounds and incomes can intermingle and keep “eyes on the street.” This experience has led too often to the proliferation of bad outcomes for all and an environment in which certain social pathologies such as crime and drugs have been allowed to fester.



Sursum Corda has been no exception. One of the main problems that has afflicted Sursum Corda and the NW1 neighborhood has been the lack of defensible space and insufficient “eyes on the street.”

It is much more likely that the District will be successful in mixing incomes throughout all phases of the entire New Community and across property lines at a reasonable density if the District and its public partners gain control of all necessary sites.

A key factor in the recommendation to assemble all the properties is the need to mix Section 8 units across many properties in the new 28 acre, 1,700 unit community, since currently all five hundred plus Section 8 units are concentrated in a single ten acre area.

If the Section 8 units cannot be integrated across property lines today, then in the future there could be certain buildings that will be known as “Section 8 buildings” and certain buildings known as “market rate buildings.” If this occurs then the District will have failed to create a vibrant mixed-income community that will become a neighborhood of choice for years to come for residents of all income levels. To preclude this unfortunate outcome it is recommended that the District create a redevelopment plan or small area plan that reinforces the zoning/density requirements needed to achieve the New Community.

Therefore the ability to mix incomes throughout all phases (and across existing property lines) is vital to achieve the goal of an integrated healthy community in which families may live in units that are appropriate for families and in which interior spaces are defensible.

3. Phasing and Relocation

The District committed in the Guiding Principles to maximize the number of one-time moves for residents and to minimize any potential temporary displacement. In order to uphold this commitment, a so-called “Build First” strategy is vital. “Build First” means the new housing along North Capitol Street would be built before any existing housing is demolished. Build First needs to be coupled with District assemblage so the District can begin the process of deconcentrating Section 8 deeply subsidized units. In turn, extremely careful planning would ensure that few if any subsidized residents would be forced to temporarily move out of their existing homes during the redevelopment process. Both the District and community residents feel it is crucial to Build First to overcome a potential pitfall sometimes associated with HOPE VI redevelopments – that families move away and become “lost” in the redevelopment process.

The District controls three key parcels on North Capitol Street which should be the sites for Phase 1. The following table summarizes the preliminary recommended phasing plan:

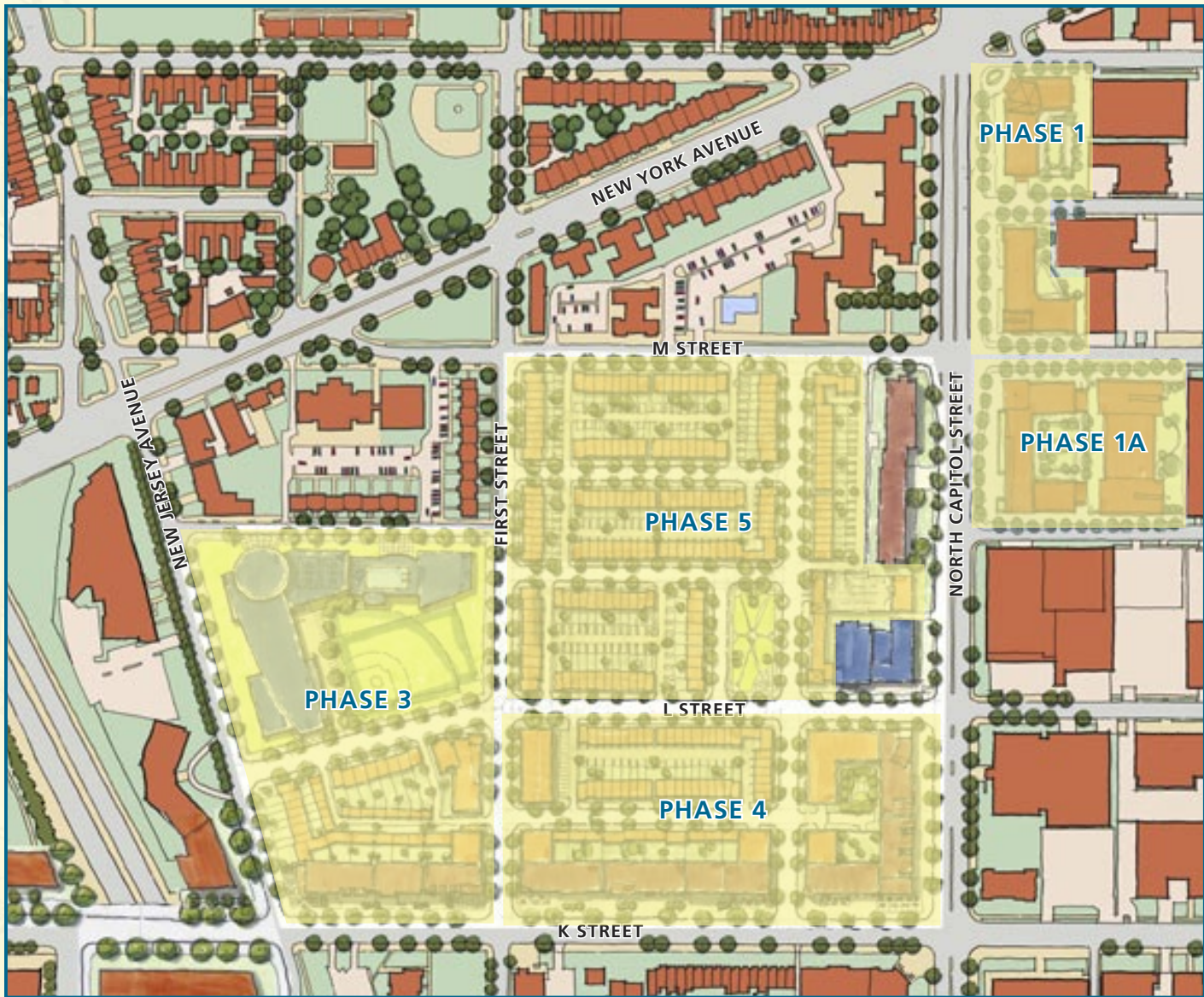
NW1 - Preliminary Unit Counts by Proposed Residential Phasing					
Phase	Description	High Density 1 and 2 BR	Low Density 2 and 3 BR	3 and 4 BR Townhouses and 2 BR stacked flats	TOTAL
Phase 1	Two NCRC sites on North Capitol Street	360	0	0	360
Phase 1A	DHCD site on North Capitol	272	0	0	272
Phase 2	Site in Opportunity Area to be determined	0	0	98	98
Phase 3	DCPS School site, Southern Baptist Church, and NCRC/other sites on New Jersey and K and new L street	160	50	22	232
Phase 4	Temple Court/45 K Street/Gonzaga/ Golden Rule area	405	94	62	561
Phase 5	Sursum Corda/Sibley low density area	0	0	175	175
	TOTAL	1197	144	357	1698

The key consideration of the preliminary phasing plan is to phase and implement the development in a way that honors the right to stay Guiding Principle for the residents of existing subsidized housing developments and to minimize temporary relocation of existing residents while ensuring a mixing of incomes from the beginning. The project underwriting assumptions presume certain condominium sales prices and market rate rental rates to cross-subsidize some of the affordable and low income units. A high quality housing product, planned new neighborhood amenities and mixing of incomes from the beginning will show that the new neighborhood is a desirable place to live. This market demand is a critical component of the financial underwriting assumptions. The proposed financing approach uses the profits from market rate units to reduce the necessary public subsidy for affordable housing.

It will be important to carefully stage and sequence new development and plan resident moves in such a way that residents’ housing needs are met but also so that closing down the various properties happens in a planned but expeditious manner to allow demolition, site preparation and public infrastructure to be undertaken so there are not significant gaps in development phasing. The chart below proposes a preliminary phasing plan based on the assumption that the District and its partners would acquire and own all the underlying property:

NW1 - Preliminary Relocation Plan Based Upon 1 for 1							
Physical Replacement of 527 Existing Units and 100% Occupancy of all 527 Units							
	Total Units Built	Unit Type	Deep Subsidy Units	% Deep Subsidy Units	Move Ins from	Units Reserved Each Phase	Unit Type Still Occupied
Phase 1	360	High Density 1/2 BR	119	33%	Temple Court	100	80
					Golden Rule	19	22
Phase 1A	272	High Density 1/2 BR	90	33%	Temple Court	80	0
					Golden Rule	10	12
Phase 2	98	Low Density TH 3/4/5 BR	39	40%	Temple Court	25	14
					45K/Turnkey	14	14
Phase 3	160	High Density 1/2 BR	53	33%	Golden Rule	10	2
					Sursum	43	30
	72	Low Density TH 3/4/5 BR	29	40%	Temple Court	14	0
					45K/Turnkey	14	0
					Sursum	1	125
Phase 4	405	High Density 1/2 BR	134	33%	Sursum	30	0
					76 M	24	0
					Excess	80	
	156	Low Density TH 3/4/5 BR	62	40%	Sibley Low Density	16	0
					Sursum	46	79
					Shortage	79	
Phase 5	175	Low Density TH 3/4/5 BR	70	40%	Sursum	70	9
					Shortage	9	





Phasing Map

4. Schedule

The following initial project schedule suggests a timeline for beginning and completing this redevelopment:

NW1 Proposed Schedule	
Period	Redevelopment Activities
Jan - June 2006	Site Control negotiations and Development Agreement negotiations
	Sale of Housing Production Trust Fund bonds
	Purchase and Sale Agreements
June - Dec 2006	Land disposition, selection of master developer(s)
	Negotiation of any remaining Development Agreements
	Exclusive Rights Negotiating Period with master developer(s)
	Close on master development agreement(s)
2007	Development begins on Build First parcels along N. Capitol (Phase 1 and 1A)
	Pre-Construction, Entitlements and Permitting for redevelopment
2008 - 2013	Finish Phase 1
	Execute Phase 2-5 of the Redevelopment



5. Sources & Uses

Preliminary financial estimates have been prepared through the analysis of three categories of data:

1. sale price and rental rate estimates from a market analysis commissioned specifically for the NW1 project;
2. cost estimates from comparable developments led by the Housing Authority and construction cost data provided by local architects; and,
3. financial underwriting assumptions prepared by McCormackBaronSalazar (MBS).

There are three key categories of costs in the Uses of Funds:

- upfront public investments;
- land costs; and,
- development costs.

Upfront public investments suggested include:

Preliminary Estimated Upfront Public Investments	(Total in \$ millions)
Additional Master Planning/Refinement (over 2-3 year period)	\$1.5
Relocation (approximately \$3,600 per occupied unit)	\$1.8
Demolition / environmental remediation/site prep [1]	\$5.3
Public Infrastructure Design and Construction [2]	\$12.5
Public Management & Oversight [3]	\$3.0
Human capital & Workforce Planning and Implementation [4]	\$7.0
Total	\$31.1
Notes	
[1] Demolition/asbestos removal @ \$5,000 per unit, environmental remediation @ \$250,000, and site preparation @ \$125,000 per acre	
[2] Allowance - requires further analysis and estimate	
[3] Costs of 3rd party program management over 4-5 year period	
[4] District share of \$10M program over 7 years which will require fundraising from foundations	

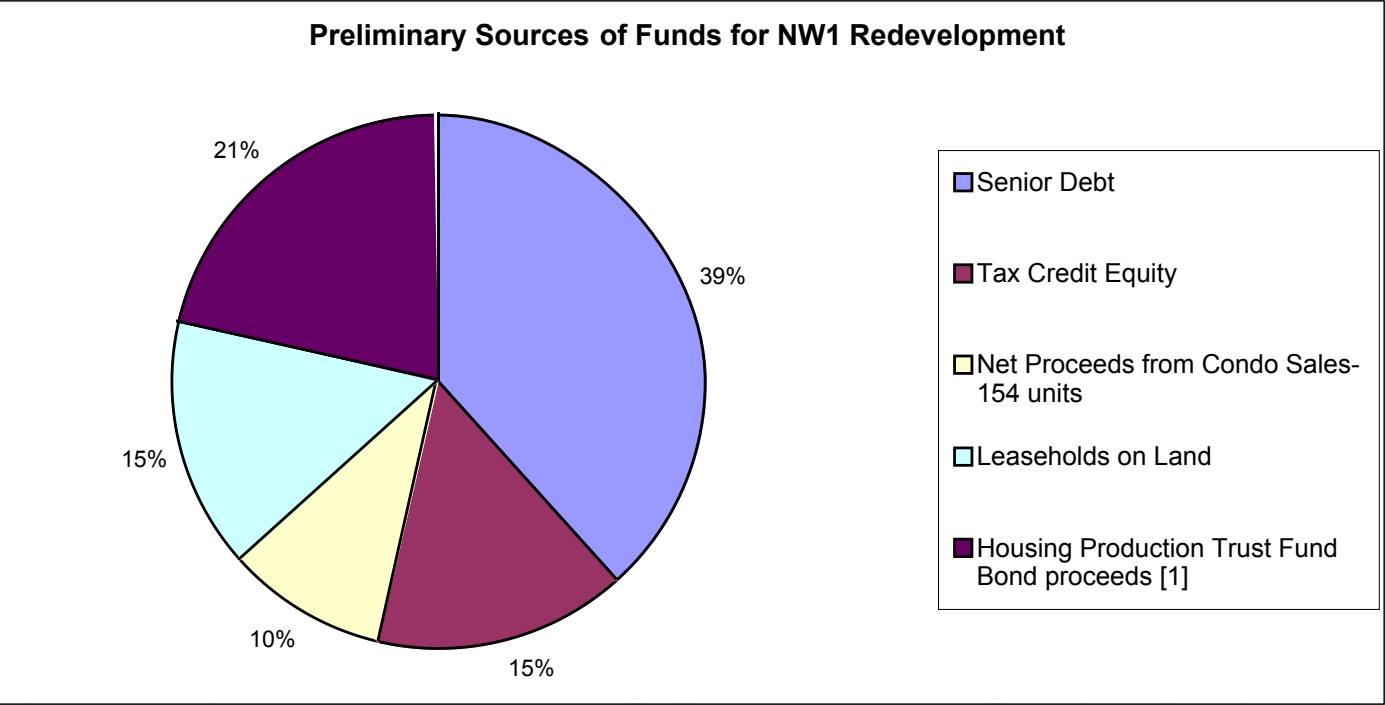
Land costs have been estimated and can be discussed with Council. Further provision of data in this document is counterproductive since the District faces imminent land negotiations for site control.

Development cost estimates are included in the following comprehensive uses of funds:

Preliminary Estimated Sources and Uses Subject to Change as Market Conditions Evolve ^[1]		
Development program: 1,698 units, 95,000 retail		
USES OF FUNDS	Total (in \$ millions)	% of Total
Hard Costs	\$304	55%
Soft Costs	\$91	16%
Land	\$132	24%
Up-Front Public Investments (see table above)	\$31	6%
TOTAL USES OF FUNDS	\$558	100%
SOURCES OF FUNDS		
Senior Debt	\$214	38%
Tax Credit Equity	\$85	15%
Net Proceeds from Condo Sales-154 units	\$55	10%
Leaseholds on Land	\$85	15%
Housing Production Trust Fund Bond proceeds ^[2]	\$120	22%
TOTAL SOURCES OF FUNDS	\$558	100%
[1] Preliminary Estimated Sources and Uses were calculated on the basis of a market analysis, local construction cost data and DC Housing Authority experiences with HOPE VI projects. The preliminary estimate is only an estimate and is subject to change as market conditions evolve.		
[2] Housing Trust Fund bond proceeds break-out		
Housing Trust Fund bond proceeds are allocated to the following uses:		
Soft Second Mortgages for affordable housing home ownership	\$4	4%
Development Gap, Property Acquisition to fund affordable housing	\$75	68%
Up-Front Public Investments (see table above)	\$31	28%
Subtotal	\$110	100%
Notes		
Development Gap and Property Acquisition are represented together to protect the District's interests in ongoing land negotiations.		
Sources and uses are represented as \$558M for rounding purposes.		



In graphical form, the proposed sources of funds are:



Acknowledgements

Government of the District of Columbia

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Council of the District of Columbia

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